FY 2020-21 and FY 2021-22 Revenue Letter

Controller's Discussion of the Mayor's Proposed Budget

The Charter requires that the Controller comment on revenue estimates assumed in the Mayor's FY 2020-21 and FY 2021-22 proposed budget. We find tax revenue assumptions to be reasonable, but caution they are highly dependent on the course of economic reopening, will require frequent monitoring, and are subject to updates as conditions change. The budget draws heavily on prior year reserves to support operations. Baselines are largely funded at or above required levels.

August 11, 2020

City & County Of San Francisco
Office of the Controller
Budget & Analysis Division

About the Budget & Analysis Division

The Budget and Analysis Division (BAD) manages the technical development of the City's annual budget, including forecasting tax revenues, costing and budgeting labor and benefit costs, and assisting the Mayor and Board of Supervisors with costing and budgeting of policy initiatives. The group manages the City's adherence to voter-approved spending requirements and financial policies and produces a variety of reports, including quarterly budget status updates and various fee-related reports. Additionally, the division manages property tax apportionment, rate setting, and reporting to the state, places special assessments on property tax bills, and processes the Assessor's changes to prior and current year property tax rolls.

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Executive Summary

Key findings from our review of the proposed two-year budget:

- **Tax revenue assumptions are reasonable and based on the expectation that the COVID-19 pandemic continues to depress economic activity in FY 2020-21.** Economic and revenue projections are highly uncertain given the unknown future course of the public health crisis. Following a severe loss of tax revenues in the final quarter of FY 2019-20, revenue estimates in the proposed budget assume a slow recovery begins in FY 2020-21. The budget assumes the impact of the public health crisis is significantly mitigated by the end of FY 2020-21 and a more robust growth begins by that time, as restrictions on large gatherings are lifted and office, hotel and other commercial activities can begin to return to pre-COVID levels. Tax revenues will fall short of these projections if the public health crisis persists at current levels or worsens. The Controller's Office will closely monitor and report on revenues during the upcoming fiscal year, and active management of the City's budget will likely be required by the Mayor and Board of Supervisors.

- **The budget assumes continued federal funding for a significant portion of COVID-19 response costs in FY 2020-21.** The budget relies on significant federal funding for COVID response efforts, including $236.4 million of reimbursements from the Federal Emergency Management Agency (FEMA) and $82.1 million from the Coronavirus Relief Fund. This assumes that FEMA permits claiming through FY 2020-21 and for existing eligible costs. Additionally, the budget assumes no public health response costs or associated revenues following FY 2020-21. To the extent these local programs are required after FY 2020-21, future budgets will require significant adjustment. Lastly, Congress is currently negotiating the next federal stimulus package, which could provide increased local resources not assumed in the budget.

- **The budget assumes voter approval of a November 2020 ballot measure** to increase the gross receipts tax on certain taxpayers and impose new replacement general taxes on the gross receipts from the lease of certain commercial space or larger businesses if two contested 2018 (June and November Prop C) business tax measures are struck down. As a result, $330.8 million of new revenue transfers into the General Fund are assumed in the budget, to repay prior year General Fund advances made for these purposes. Should the measure fail, this would result in the loss of a significant General Fund balancing solution.

- **The proposed budget appropriates "excess ERAF" property tax funds in FY 2020-21 and FY 2021-22 for ongoing purposes.** Given the risk of state legislation to eliminate excess ERAF, through FY 2019-20 these revenues have been treated as non-recurring and largely spent on one-time uses. While future revenues will depend on the final contents of ERAF calculation and allocation procedures established by the State Controller's Office in December 2020, as stipulated in state budget trailer legislation, excess ERAF revenue was not eliminated wholesale. The proposed budget includes $330.0 million of excess ERAF revenue. Of the $252.1 million available after baseline allocations, $53.9 million is spent to continue education, mental health and homeless services previously funded on a temporary basis and $198.3 million was used to balance other revenue shortfalls. Excess ERAF revenues assumed in FY 2021-22 are subject to some legislative risk as the State grapples with likely budget shortfalls in future fiscal years.

- **The budget assumes that contractual wage increases for all City employees are renegotiated and deferred.** Under the terms of previously negotiated labor contracts, city employees are currently scheduled to receive pay increases in both FY 2020-21 and FY 2021-22 at a General Fund cost of approximately $55.0 million and $215.0 million, respectively. To the extent that these negotiations are not successful, costs will be higher in each of the budget years, requiring additional adjustments to maintain a balanced budget.

- **The budget consolidates several reserves into a new single reserve to guard against these significant risks.** The budget consolidates seven existing one-time reserves into one COVID Response and Economic Loss Reserve of $507.4 million. This reserve would be available to offset losses versus the proposed budget for risks noted above, or to assist with balancing of future fiscal year budgets. We note that this balance would be sufficient to offset some – but not all – of these risks should they materialize during the budget period.

- **The budget withdraws the maximum permissible amount from the City's economic stabilization reserves; code-mandated reserves are funded and maintained at required levels.** Over the two budget years, the budget draws $167.3 million of Budget Stabilization Reserve and $171.8 million of Rainy Day Reserve, the maximum amounts allowed under the City's financial policies. A balance of $182.6 million remains in those reserves, and per the City's financial policies, can be fully drawn in FY 2022-23. General Reserve funding levels in the budget are at code-mandated levels, which are reduced in years when the City is eligible to withdraw from its economic stabilization reserves, resulting in savings of approximately $28.9 million in FY 2020-21.

- **The proposed budget is in violation of the City's non-recurring revenue policy. In order to adopt the budget, the Board of Supervisors will need to temporarily suspend the City's financial policies.** Charter Section 9.120 requires the Board of Supervisors to adopt financial policies, and to suspend these policies by a two-third's vote in any year in which it seeks to approve a budget that the Controller determines is inconsistent with these policies. The Board of Supervisors has adopted a nonrecurring revenue policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for nonrecurring expenditures. The FY 2021-22 budget relies on $331.6 million of one-time reserves and only $88.6 million of one-time expenditures. The Controller's Office has advised the Mayor's Budget Office of the need to propose a resolution to suspend the financial policies in FY 2021-22.

- **Most voter-adopted spending requirements are met, or exceeded, at a cost exceeding $1.3 billion annually.** The financial baselines include mandated spending for transit, libraries, schools, early childhood education, street trees, and other programs. Several programs are funded above the required levels, including the Children's Services baseline, Transitional Aged Youth baseline, Recreation and Parks baseline, as well as two new baselines that had not been previously measured: the Early Care and Education Baseline (June 2018 Prop C) and the Our City, Our Home Baseline (November 2018 Prop C). The Police staffing baseline is likely not met.

APPENDICES

1. General Fund Sources
2. General Fund Reserve Uses and Deposits
3. One-Time Sources and Nonrecurring Revenue Policy Compliance
4. Baselines & Mandated Funding Requirements

Appendix 1. General Fund Sources

As shown in Exhibit 1, the Mayor's proposed budget for FY 2020-21 includes $6.2 billion in General Fund sources and $13.7 billion in all funds sources, representing increases of 0.9 percent and 11.1 percent, respectively, from the FY 2019-20 original budget. The Mayor's proposed budget for FY 2021-22 includes $5.8 billion in General Fund sources and $12.6 billion in all funds sources representing decreases from the FY 2020-21 proposed budget of 6.2 percent and 7.9 percent, respectively.

Exhibit 1. Overview of Budget Sources ($ million)

General Fund

	FY 2019-20 Budget	FY 2020-21 Proposed	FY 2021-22 Proposed
Fund Balance	$ 210.6	$ 361.2	$ 9.8
Use of Reserves	89.2	156.5	331.6
Regular Revenues	5,679.6	5,231.6	5,290.2
Transfers In to the General Fund	163.5	447.1	182.5
Total GF Sources	$ 6,142.9	$ 6,196.3	$ 5,814.0
Change from Prior Year		*$ 53.5*	*$ (382.3)*
Percentage Change		*0.9%*	*-6.2%*

All Funds

	FY 2019-20 Budget	FY 2020-21 Proposed	FY 2021-22 Proposed
Fund Balance	$ 407.1	$ 819.8	$ 137.6
Use of Reserves	95.3	178.7	358.9
Regular Revenues	11,811.3	12,683.9	12,108.8
Total All-Funds Sources	$ 12,313.7	$ 13,682.4	$ 12,605.3
Change from Prior Year		*$ 1,368.7*	*$ (1,077.1)*
Percentage Change		*11.1%*	*-7.9%*

Note: Totals may appear to differ from sum of line items due to rounding

Exhibit 1-1 provides a summary of the General Fund sources in the Mayor's FY 2020-21 and FY 2021-22 proposed budget.

Exhibit 1-1. General Fund Sources ($ millions)

Sources of Funds		FY 2019-20 Budget		FY 2020-21 Proposed		FY 2021-22 Proposed	Notes
Fund Balance and Reserves							
Prior Year Fund Balance - Operating Surplus	$	210.6	$	361.2	$	9.8	1
Use of Reserves		89.2		156.5		331.6	2
Subtotal		**299.9**		**517.7**		**341.4**	
Regular Revenues							
Property Taxes		1,956.0		2,019.6		1,976.9	3
Business Taxes		1,050.6		831.4		1,030.9	4
Sales Tax (Bradley Burns 1%)		204.1		183.7		185.3	5
Hotel Room Tax		389.1		126.2		233.0	6
Utility Users Tax		98.7		81.1		89.0	7
Parking Tax		83.0		59.4		84.6	8
Real Property Transfer Tax		296.1		138.0		253.4	9
Stadium Admissions Tax		5.5		2.5		4.4	10
Cannabis Tax		3.0		4.3		8.5	11
Sugar Sweetened Beverage Tax		16.0		14.0		14.0	12
Access Line Tax		48.9		48.9		52.0	13
Licenses, Permits & Franchises		30.4		23.2		23.7	
Fines and Forfeitures		3.1		2.3		3.1	
Interest & Investment Income		76.6		23.5		16.5	14
Rents & Concessions		15.1		10.9		15.5	
Intergovernmental - Federal		**280.0**		**615.9**		**293.6**	15
Federal Emergency Management Agency		-		236.4		-	
Coronavirus Relief Fund		-		82.1		-	
Other		280.0		297.4		293.6	
Intergovernmental - State		**805.9**		**761.3**		**733.0**	
Public Safety Sales Tax		104.6		97.1		103.6	16
1991 Health & Welfare Realignment		221.0		190.1		197.0	17
Public Safety Realignment		42.1		36.1		33.2	18
State Realignment Backfill		-		22.2		-	17,18
Other		438.1		415.8		399.2	19
Intergovernmental Revenues - Other		2.7		2.9		2.9	
Charges for Services		232.3		235.5		223.8	
Recovery of General Government Costs		12.9		21.8		21.8	
Other Revenues		69.4		25.3		24.3	20
Subtotal Regular Revenues	*$*	*5,679.6*		*5,231.6*	*$*	*5,290.2*	
Transfers In to the General Fund		163.5		447.1		182.5	21
Total Sources	$	**6,142.9**	$	**6,196.3**	$	**5,814.0**	

NOTES

1. Prior Year Fund Balance

The proposed budget assumes $370.9 million in unassigned General Fund surplus will be available at the end of FY 2019-20. In May 2020, the Controller's Nine Month Report projected a mid-year shortfall of $246.2 million. After implementing the Mayor's rebalancing plan, which reduced expenditure budgets and used $77.6 million of the General Reserve, fund balance available for budget years was $331.6 million, as previously assumed in the January 2020 Five Year Financial Plan update. After the publication of the Nine-Month report, additional current year expenditure savings and revenue surpluses were identified, and the fund balance available for appropriation increased to $370.9 million.

Exhibit 1-2. Buildup of FY 2019-20 Fund Balance Appropriated in the Budget

Projected in January 2020 Five Year Financial Plan	$ 331.6
Mid-Year Shortfall at May 2020 Nine-Month	(246.2)
Mayor's Mid-Year Rebalancing Plan	246.2
Additional Fund Balance Projected Post 9-Month	39.3
Total Use of Fund Balance	$ 370.9

2. Use of Reserves

As shown in Exhibit 1-3, the Mayor's proposed budget uses of $156.5 million in FY 2020-21 and $331.6 million in FY 2021-22 from reserves. See Appendix 2 for more details.

Exhibit 1-3. General Fund Use of Prior Year Reserves ($ millions)

	FY 2020-21 Proposed Budget	FY 2021-22 Proposed Budget
Budget Stabilization Reserve	$ 42.0	$ 125.3
Rainy Day Reserve	114.5	57.3
Business Tax Stabilization Reserve	-	149.0
Total Use of Prior Year Reserves	$ 156.5	$ 331.6

3. Property Tax

The FY 2020-21 General Fund share of property tax revenue is budgeted at $2,019.6 million, which is $63.6 million (3.3 percent) more than the FY 2019-20 budget. The FY 2021-22 General Fund share of property tax revenue is budgeted at $1,976.9 million, which is $42.7 million (2.1 percent) lower than the proposed FY 2020-21 budget. The largest driver of these year-to-year variances is related to excess Educational Revenue Augmentation Fund (ERAF) assumptions. Excess ERAF is budgeted at $187.0 million in FY 2020-21, which is $2.0 million (1.1 percent) more than FY 2019-20 budget, and $143.0 million in FY 2021-22, which is $44 million (23.5 percent) less than the FY 2020-21 proposed budget

Changes in property tax revenues lag other recessionary revenue losses due to statutory deadlines that key off the annual property lien date of January 1st. FY 2020-21 revenues are largely based on values as of the January 1, 2020 lien date. Locally assessed secured property roll growth as of that date is 7.7% over the FY 2019-20 lien date of January 1, 2019. While taxable values grew substantially between those dates, the FY 2020-21 budget also contains precautions for sharp increases in unpaid property taxes (especially unsecured business property) and assessment appeals from hotels, retail, entertainment, and multi-unit apartment properties.

The FY 2021-22 locally assessed secured property roll growth budget assumption is almost flat at 0.2%. Hotel, retail, and office assessed values are assumed reduced by $8.5 billion, reflecting declines of 20%, 20%, and 7%, respectively. A 20% reduction in unsecured business property tax assessments is included in the projection, reflecting the possibility of business closures prior to the January 1, 2021 lien date.

4. Business Tax

FY 2020-21 business tax revenue is budgeted at $831.4 million, which is $219.2 million (20.9 percent) less than what was budgeted in FY 2019-20. FY 2021-22 business tax revenue is budgeted at $1,030.9 million, which is $199.5 million (24.0 percent) higher than the proposed FY 2020-21 budget. Business tax revenue is comprised of payroll tax, business registration fee, administrative office tax, and gross receipts tax.

Revenues from business tax and registration fees follow economic conditions in the City, primarily employment and wage growth. The COVID-19 emergency has significantly affected the business tax revenue base. The unemployment rate in the City rose to 12.6% in April and remains at 12.5% in June, the most recent data available. At the end of March, weekly initial unemployment claims peaked at about 27,000. Though weekly initial claims fell in the following weeks, since early May, initial claims have been around 5,000 weekly, more than five times higher than the average number of initial claims in the two months before the March 17 shelter-in-place order. Since March, thousands of businesses have closed temporarily, some permanently.

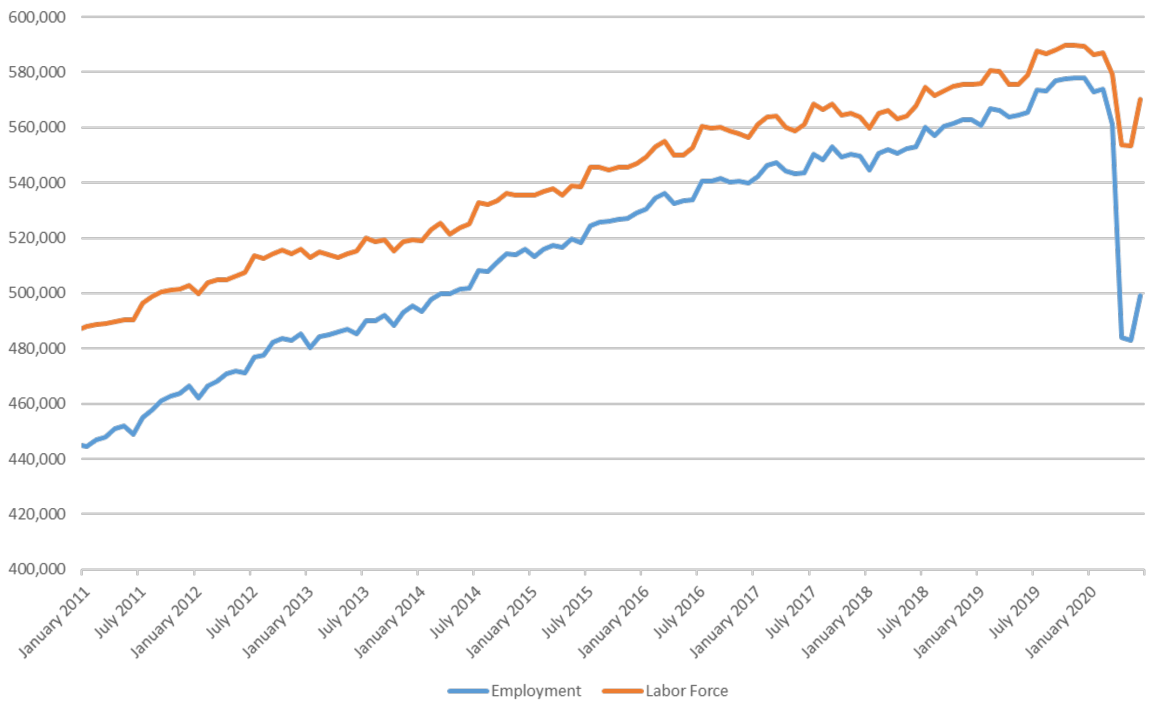
The budget assumes underlying economic growth of -5% in tax year 2020 and 6% in tax year 2021, reflecting a quick recovery of employment lost to public health mandates, and that $37.2 million in business registration taxes budgeted in FY 2019-20 but deferred to FY 2020-21 are paid in FY 2020-21. The assumption of payroll tax revenue generated by IPOs has been reduced from $20.0 million to zero in FY 2020-21. Loss of revenue from potential penalty reform legislation (estimated between $0.3M to $5.9M) is not included, and a measure on the November 2020 ballot to restructure businesses taxes is assumed to generate $4.0 million of business tax in FY 2020-21 and $23.0 million in FY 2021-22 as intended.

Additionally, the sudden and sharp increase in telecommuting creates revenue risk. Approximately half of workers in major tax-paying sectors such as Professional Services, Financial Services, and Information live outside of San Francisco. Extended periods of working-at-home during the emergency may affect how much of a business's payroll expense and gross receipts is apportionable to San Francisco. Some of the City's largest private employers have instructed their employees to telecommute whenever possible, as evidenced by BART ridership declining almost 90% from its pre-COVID-19 baseline ridership. Businesses owe payroll tax only on their employees physically working within the City. For certain categories of businesses, the gross receipts tax is also dependent on their San Francisco payroll. Thus, the sharp rise in telecommuting will result in reduced business taxes. Although some San Francisco residents who previously commuted out of the City are now telecommuting from within the City, many of these residents work for employers who do not have a nexus in the City, and thus are not subject to business taxes.

In the medium- to long-term, permanent relocations out of the San Francisco area could have a larger impact on the City's tax base. The budget assumes that in calendar year 2020, 50% of workers in the Professional Services, Financial Services, and Information sectors who live outside of San Francisco now work from home instead of commuting into the City, and that in calendar year 2021, 25% telecommute. In FY 2020-21, these assumptions about telecommuting reduce payroll tax revenue by 10.2% and gross receipts tax revenue by 7.7%. In FY 2021-22, these assumptions reduce payroll tax and gross receipts tax revenues by 2.9% and 2.2%, respectively.

Exhibit 1-4 shows labor force and employment levels from 2011 through June 2020. In April, during the most restrictive phase of the shelter-in-place order, employment fell to a level not seen since the end of 2012. While employment has begun to rebound since May, it remains well below the long-term trajectory.

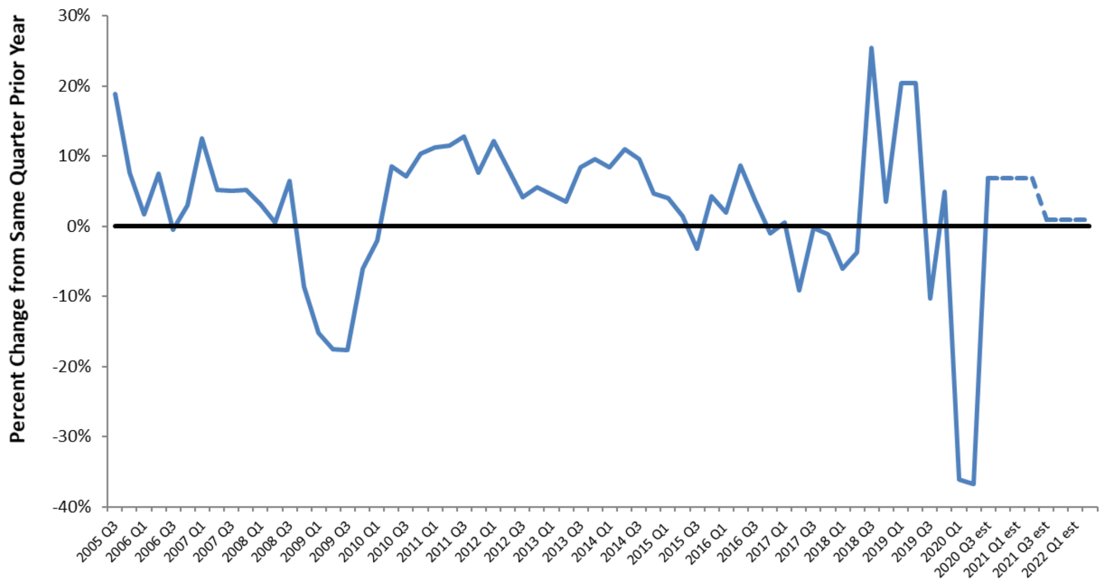
Exhibit 1-4. San Francisco Employment and Labor Force from January 2011 through June 2020



5. Sales Tax

Local sales tax is budgeted at $183.7 million in FY 2020-21, which is $20.4 million (10.0 percent) less than the FY 2019-20 budget and a $13.3 million (7.8 percent) increase from FY 2019-20 as projected in the Nine Month Report. FY 2021-22 local sales tax is budgeted at $185.3 million, which is $1.6 million (0.9 percent) higher than the proposed FY 2020-21 budget. The decline in FY 2020-21 is due to anticipated losses at restaurants, hotels, and non-essential retail because of the COVID-19 pandemic. Many San Francisco businesses are closed or operating at significantly reduced capacity, and consumers are spending less in certain categories given fewer opportunities and job loss or insecurity. To support small businesses, the State allowed eligible businesses to defer sales and use tax payments over a period of 12 months. The expiration of the deferral program contributes to slower estimated growth in FY 2021-22.

Exhibit 1-5. Actual and Projected Change in Sales Tax Revenues for San Francisco, FY 2005-06 to FY 2021-22



6. Hotel Tax

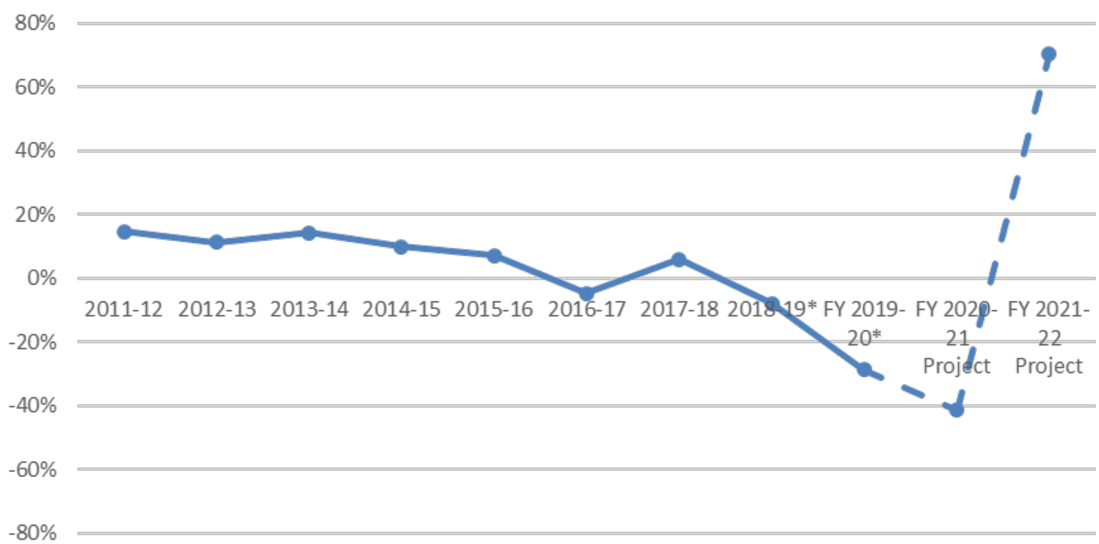
The FY 2020-21 General Fund share of hotel tax revenue is budgeted at $126.2 million, which is $262.9 million (67.6 percent) less than what was budgeted in FY 2019-20. FY 2021-22 revenue is budgeted at $233.0 million, an increase of $106.7 million (84.5 percent) from the proposed FY 2020-21 budget.

Total hotel tax revenue across all funds is budgeted at $156.7 million in FY 2020-21, $270.4 million (63.3 percent) less than budgeted in FY 2019-20 and a $111.8 million (41.7 percent) decrease from projected FY 2019-20 levels. FY 2021-22 hotel tax revenue is budgeted at $266.0 million across all funds, $109.3 million (70.0 percent) more than budgeted in FY 2020-21. The difference between total and General Fund hotel tax is due to funding requirements in November 2018 Proposition E, which caps changes in arts and culture allocations of hotel taxes at 10% from the prior year.

The significant decline in FY 2020-21 is due to the far-reaching impact of the pandemic on San Francisco's travel and hospitality industries. San Francisco's hotels are, on average, in the higher-priced tiers and rely on business travelers and tourists who arrive by air. Because of the COVID-19 pandemic, air travel is perceived as highly risky, and higher tier hotels are expected to be the slowest class of hotels to recover in this economic climate. Large gatherings and conferences, which normally drive up rates through compression pricing, remain prohibited in the City. As of July, approximately 40% of San Francisco hotels remained closed, and occupancy rates for those that were open averaged 34.1%. Adjusted for room supply, the occupancy rate was 19.3%, an improvement from June's 16.0%, but still a dramatic reduction from July 2019 occupancy of 84.9%. The projected recovery of hotel tax revenue in FY 2021-22 is largely based on the assumption that an effective vaccine and or treatment allow large in person gatherings.

Revenue per Available Room (RevPAR), a measurement of hotel tax revenue growth, is a function of changes in occupancy and average daily room rates (ADR). Exhibit 1-6 shows a recent history of RevPAR levels. Despite some slowdown in the growth in the hospitality industry, the year-over-year change of RevPAR has generally grown from FY 2011-12 to FY 2018-19. During the first seven months of FY 2019-20 RevPAR grew by 2.8% on average over the same period prior year. As airlines began suspending flights to and from China in February, RevPAR decreased 10.9%. The decline sharpened with the shelter in place order in March, and RevPAR in the City reached its record low of $15.89 in April, a 92.7% decrease from the same month prior year. Since then, as the City has slowly eased some restrictions, RevPAR has also increased slightly to $30.65 in June, still an 86.7% decrease from the same month in 2019. RevPAR is not expected to recover to pre-pandemic levels until FY 2023-24.

Exhibit 1-6. Average Annual Change in Revenue Per Available Room (RevPAR)
FY 2011-12 to FY 2021-22



*Data from FY 2011-12 to FY 2017-18 are provided by CBRE, and data from FY 2018-19 to FY 2019-20 are provided by SF Travel.

7. Utility Users Tax

FY 2020-21 utility user tax revenue is budgeted at $81.1 million, which is $17.6 million (17.9 percent) less than what was budgeted in FY 2019-20 and $8.3 million (9.3 percent) less than projected in the FY 2019-20 Nine Month Report. FY 2021-22 revenue is budgeted at $89.0 million, which is $7.9 million (9.7 percent) higher than the proposed FY 2020-21 budget. The budget reflects lower commercial utility usage (primarily for gas and electric utilities), as businesses operate at lower levels of service and require their office workers to telecommute from home through part of FY 2020-21. Residential gas and electric consumption have increased during the pandemic, however, they are exempt from taxation in San Francisco.

8. Parking Tax

Parking tax revenue is budgeted at $59.4 million in FY 2020-21, which is $23.7 million (28.5 percent) less than what was budgeted in FY 2019-20, and $11.3 million (16.0 percent) less than the Nine Month Report projection. FY 2021-22 revenue is budgeted at $84.6 million, which is $25.2 million (42.5 percent) higher than the proposed FY 2021-22 budget. Historically, parking tax revenues have correlated with business activity and employment, although ride-sharing has disrupted that pattern in recent years. With the COVID-19 pandemic, the City expects lower levels of business activity to depress parking tax revenues. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80 percent is transferred to the Municipal Transportation Agency for public transit as mandated by Charter Section 16.110.

9. Real Property Transfer Tax

Real property transfer tax (RPTT) revenue is budgeted at $138.0 million in FY 2020-21, which is $158.1 million (53.4 percent) less than the FY 2019-20 budget and a reduction of $78.0 million (36.1 percent) from the FY 2019-20 Nine Month report projection. In FY 2021-22, RPTT revenue is budgeted at $253.4 million, which is $115.4 million (83.6 percent) more than the FY 2021-22 budget. The budget assumes that market uncertainty will result in fewer transfers of commercial properties in FY 2020-21, but the City will return to its long-term average in the following fiscal year. Considering the highly volatile nature of this revenue source, the Controller's Office monitors collection rates throughout the fiscal year and provides regular updates to the Mayor and the Board of Supervisors. The budget does not assume the transfer tax rate increases from the November 2020 ballot measure.

Exhibit 1-7 shows revenue collections beginning in FY 2000-01. As the City's most volatile revenue source, collections can see large year-over-year changes that have exceeded 70% in some instances. The main factors creating volatility are sales of high-value properties, availability of financing, and the relative attractiveness of San Francisco real estate compared to global investment options, all of which track well with economic cycles, as well as voter-approved rate changes, which occurred in 2008, 2010 and 2016.

Exhibit 1-7. Historical Real Property Transfer Tax Revenue ($ millions), FY 2000-01 through FY 2020-21

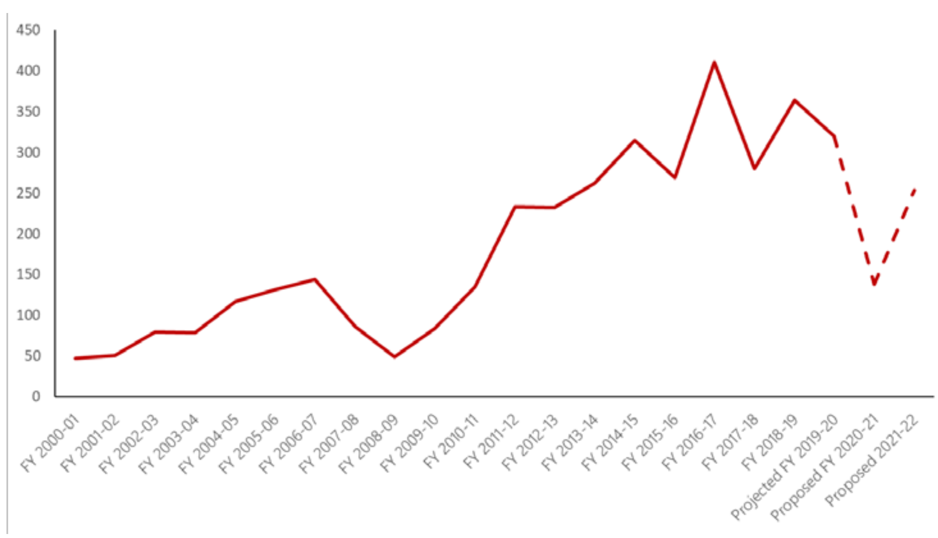
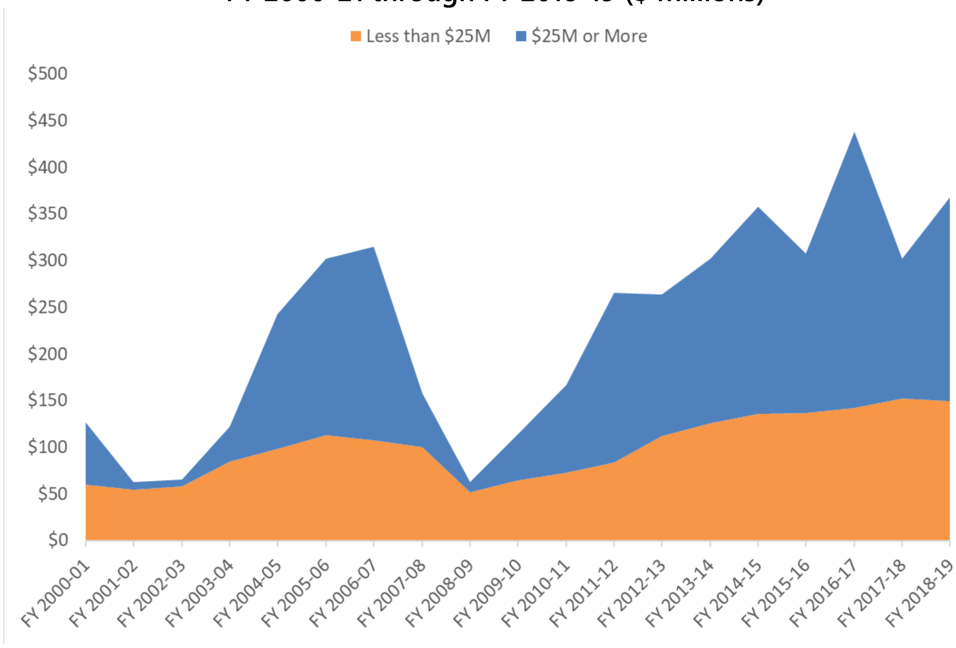


Exhibit 1-8 shows historical RPTT revenue by transaction size after being adjusted to reflect rate changes from Prop W (November 2016), Prop N (November 2010), and Prop N (November 2008), and demonstrates how the volatility of RPTT is due mainly to the sales of high-value (largely commercial) properties over $25 million. In FY 2008-09, transactions above $25 million would have generated only $10.6 million under the current rates compared to the peak in FY 2016-17, when these transactions generated $295.8 million. Since the end of the recession in FY 2009-10, these large transactions made up on average 58.0 percent of total revenue but only 0.6 percent of the transaction count. This means that revenue is determined by a small handful of transactions. In the past two recessions, the taxes collected on large transactions fell dramatically, as shown by the narrowing between the blue and gray lines in FY 2001-03 and FY 2008-09, and as assumed in FY 2020-21.

Exhibit 1-8. Real Property Transfer Tax Rate-Adjusted Revenue by Transaction Size, FY 2000-21 through FY 2018-19 ($ millions)



Deposits to the Budget Stabilization Reserve are funded with a portion of volatile revenues, including 75 percent of RPTT revenue in excess of the prior five-year average adjusted for any rate increases during the period. No deposits are expected during FY 2020-21 or FY 2021-22 as RPTT revenue is projected to be below the prior five-year average. See Appendix 2 for more detail on the Budget Stabilization Reserve.

10. Stadium Admissions Tax

FY 2020-21 stadium admissions tax revenue is budgeted at $2.5 million, $3.0 million (54.5 percent) less than the FY 2019-20 budget and Nine Month report projection, due to the restrictions on mass gatherings during the COVID-19 pandemic. In FY 2021-22, revenue is budgeted at $4.4 million, as the economy recovers and large gatherings for major events resume.

11. Cannabis Tax

In November 2018, voters approved a new gross receipts tax (Proposition D) of 1% to 5% on marijuana businesses and permits the City to tax businesses that do not have a physical presence in the city. The excise tax on cannabis goes into effect January 2021. FY 2020-21 cannabis tax revenue is budgeted at $4.3 million and FY2021-22 revenue is budgeted at $8.5 million.

12. Sugar Sweetened Beverage Tax

The City's one cent per ounce tax on tax sugar sweetened beverages became effective January 1, 2018. It is expected to generate $14.0 million in FY 2020-21 and FY 2021-22. Given the experience of other jurisdictions that have enacted soda taxes, we expect this revenue to decline in future years as consumers switch to beverages not subject to the tax.

13. Access Line Tax

FY 2020-21 access line tax revenue is budgeted at $48.9 million, which is equal to what was budgeted in FY 2019-20 and $1.5 million (3.0 percent) less than projected in the FY 2019-20 Nine Month Report. FY 2021-22 revenue is budgeted at $52.0 million, or $3.1 million (6.3 percent) higher than the proposed FY 2020-21 budget. Budgets reflect proposed inflationary increases to the access line tax rate as described in Business and Tax Regulations Code Section 784.

14. Interest & Investment Income

Interest and investment income for FY 2020-21 is budgeted at $23.3 million, a decrease of $53.1 million (69.5 percent) from the FY 2019-20 budget and $26.1 million (52.8 percent) from the projection in the Nine Month Report. FY 2021-22 revenue is budgeted at $16.4 million, $7.0 million (29.8 percent) less than budgeted in FY 2020-21. This decrease is a result of the use reserves, declining revenue receipts, increased emergency response costs and maintenance of low interest rates by the Federal Reserve.

15. Intergovernmental – Federal

Federal support in the General Fund is budgeted at $615.9 million for FY 2020-21, which represents growth of $335.9 million (120.0 percent) from the FY 2019-20 budget and $347.9 million (129.8 percent) from the projection in Nine Month Report. FY 2021-22 revenue is budgeted at $293.6 million, which is $322.4 million (52.3 percent) less than the proposed FY 2020-21 budget. The FY 2020-21 increase is driven by anticipated one-time Federal Emergency Management Agency (FEMA) reimbursements for COVID-related expenditures ($236.4 million) and Federal Coronavirus Relief Fund ($82.1 million).

16. Intergovernmental – State – Public Safety Sales Tax

Public safety sales tax revenue is budgeted at $97.1 million in FY 2020-21, a decrease of $7.6 million (7.2 percent) from the FY 2019-20 budget and $6.5 million (7.2 percent) increase from the Nine Month Report. FY 2021-22 revenue is budgeted at $103.6 million, which is $6.6 million (6.8 percent) more than the proposed FY 2020-21 budget. The decrease in FY 2020-21 is mainly due to the anticipated impacts the Shelter-in-Place orders have on taxable sales. Similar to local 1% sales tax revenues, sales tax deferral programs for small business also contributed to the sharper decrease of these allocations of state sales tax in FY 2020-21 and the increase in FY 2021-20.

17. Intergovernmental – State – 1991 Health & Welfare Realignment

In FY 2020-21, the General Fund share of 1991 realignment revenue is budgeted at $190.1 million, or $30.9 million (14.0 percent) less than the FY 2019-20 budget and $6.1 million (3.1 percent) less than the projection in the Nine Month Report. The FY 2021-22 revenue is budgeted at $197.0 million, which is $6.9 million (3.6 percent) more than the proposed FY 2020-21 budget. The decrease in FY 2020-21 is the result of reductions in state sales tax revenue, which is partially backfilled with one-time State General Fund support. The General Fund share of realignment backfill from the Human Services and Behavioral Health subaccounts is budgeted at $19.7 million in FY 2020-21.

18. Intergovernmental – State – Public Safety Realignment
Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. This revenue is budgeted at $36.1 million in FY 2020-21, a $6.0 million (14.2 percent) decrease from the FY 2019-20 budget and $8.8 million (32.3 percent) more than FY 2019-20 as projected in the Nine Month Report. The FY 2021-22 proposed budget assumes a $2.8 million (7.9 percent) decrease from FY 2020-21. This reflects revenue assumptions in the Governor's May 2020 Revised Budget. As with 1991 Health and Welfare Realignment, the funding gap is partially backfilled with one-time State General Fund support. The General Fund share of realignment backfill from the Public Safety subaccount is budgeted at $2.6 million in FY 2020-21.

19. Intergovernmental – State – Other
Other State funding is budgeted at $415.8 million in FY 2020-21, a decrease of $22.3 million (5.1 percent) from the FY 2019-20 budget, or $34.7 million (7.7 percent) less than FY 2019-20 as projected in the Nine Month Report. In FY 2021-22 other State funding is budgeted at $399.2 million, a decrease of $16.6 million (4.0 percent) from FY 2020-21. The decrease in FY 2020-21 is attributable to a series of decreases including $27.7 million in Short-Doyle Medi-Cal funds, and $11.9 million in in Child Welfare Services and Foster Care Services funding, partially offset by the increase of $8.9 million in CalWORKs Maintenance of Effort (MOE) funding, and $7.9 million in IHSS Public Authority funding. The decrease in FY 2021-22 is primarily due to the wind down of the Whole Person Care pilot program with a decrease of $20.6 million, partially offset by an increase of $4.0 million in CalWORKs MOE funding.

20. Other Revenues
The proposed budget assumes revenues from other sources of $25.3 million in FY 2020-21, a decrease of $44.2 million (63.6 percent) from the FY 2019-20 budget. FY 2021-22 revenue from other sources is budgeted at $24.3 million, a decrease of $0.9 million (3.7 percent). These changes are primarily related to the loss of one-time revenues budgeted in FY 2019-20: a $13.1 million market rate parcel sale at the Potrero HOPE SF site, which will support HOPE SF rehabilitation and a grant of $15.0 million for Animal Care and Control capital projects. In addition, $20.0 million of loan repayments from the Housing Trust Fund was shifted from the General Fund to the Housing Trust Fund in FY 2020-21.

21. Operating Transfers In
Transfers-in to the General Fund are budgeted to increase by $283.6 million (173.5 percent) in FY 2020-21 compared to the FY 2019-19 original budget, then decrease by $264.6 million (59.2 percent) in FY 2021-22. This pattern is largely due to the assumption that a November 2020 ballot measure to reform business taxes passes, which would enable the City to repay General Fund advances made in prior years to support the programs funded by two contested tax measures, the Commercial Rent Tax (June 2018 Proposition C) and Homeless Gross Receipts Tax (November 2018 Proposition C).

Appendix 2. General Fund Reserve Uses and Deposits

The Mayor's proposed budget includes the use of $156.5 million from reserves in FY 2020-21 and $331.6 million in FY 20201-22 for a total of $488.1 million over the two budget years. The budget assumes the maximum allowable withdrawal from the City's two economic stabilization reserves – the Rainy Day Reserve and the Budget Stabilization Reserve. The Mayor's proposed budget also includes $247.0 million and $39.8 million in deposits to General Fund reserves during FY 2020-21 and FY 2021-22, respectively. These appear to be prudent and reflect anticipated Memoranda of Understanding (MOU), litigation, and general contingency reserve requirements.

Exhibit 2-1. Proposed General Fund Reserve Uses and Deposits ($ millions)

	FY19-20	FY 2020-21			FY 2021-22			
	Projected Ending Balance	Deposits	Withdrawals	Projected Ending Balance	Deposits	Withdrawals	Projected Ending Balance	Note
General Reserve	$ 76.4	$ -	$ -	$ 76.4	$ 0.9	$ -	$ 77.3	1
Rainy Day Economic Stabilization City Reserve	229.1	-	(114.5)	114.5	-	(57.3)	57.3	2
Budget Stabilization Reserve	292.6	-	(42.0)	250.6	-	(125.3)	125.3	3
Subtotal Economic Stabilization Reserves	$ 521.7	$ -	$ (156.5)	$ 365.2	$ -	$ (182.6)	$ 182.6	
Percent of General Fund Revenues	10.0%			7.0%			3.5%	
COVID Response and Economic Loss Reserve	$ 507.4	-	-	507.4	-	-	507.4	4
Rainy Day One-Time Reserve	-	-	-	-	-	-	-	
Budget Stabilization Reserve - One Time Reserve	-	-	-	-	-	-	-	
Affordable Care Act Contingency Reserve	-	-	-	-	-	-	-	
State and Federal Revenue Risk Reserve	-	-	-	-	-	-	-	
Housing Authority Contingency Reserve	-	-	-	-	-	-	-	
Fund Balance Draw Down Reserve	-	-	-	-	-	-	-	
Budget Savings Incentive Fund	-	-	-	-			-	
Business Tax Stabilization Reserve	-	208.0	-	208.0		(149.0)	59.0	5
Public Health Management Reserve	81.5	-	-	81.5	-	-	81.5	6
Rainy Day Economic Stabilization SFUSD Reserve	34.5	-	-	34.5	-	-	34.5	3
Recreation & Parks Savings Incentive Reserve	0.8	-	-	0.8	-	-	0.8	7
Subtotal	$ 624.2	$ 208.0	$ -	$ 832.2	$ -	$ (149.0)	$ 683.2	
Annual Operating Reserves								
Litigation Reserve	-	11.0	(11.0)	-	11.0	(11.0)	-	8
Reserve for Technical Adjustments	-	4.5	(4.5)	-	4.5	(4.5)	-	9
Salary and Benefits Reserve	-	23.5	(23.5)	-	23.5	(23.5)	-	10
Total, All Reserves	$ 1,222.3	$ 247.0	$ (195.5)	$ 1,273.8	$ 39.8	$ (370.6)	$ 943.1	

NOTES

1. General Reserve

The General Reserve, established in Administrative Code Section 10.60, is intended to address revenue and expenditure issues not anticipated during budget development, and is typically used to fund supplemental appropriations or to offset significant revenue losses following the adoption of the budget.

Ordinarily, the policy requires the General Reserve to increase to 3.0 percent of General Fund revenue in FY 2020-21, with unused General Reserve carried forward from the prior year into the new budget year. However, in years when the City is eligible to withdraw from its economic stabilization reserves, the required balance of the General Reserve is reset to 1.5 percent of General Fund revenue, growing to 3.0 percent of General Fund revenues in 0.25 percent annual increments. Thus, the Mayor's proposed budget makes no withdrawals or deposits to the General Reserve in FY 2020-21 and makes a small deposit of $0.9 million in FY 2021-22.

2. Rainy Day Reserves
The Rainy Day Reserve is established in Charter Section 9.113.5 and is funded by excess revenue growth in good years. During a recession, the maximum allowable withdrawal from the City's Rainy Day Economic Stabilization Reserve is 50 percent of the balance in each year. Rainy Day Reserve balances are comprised of three separate reserves: City Rainy Day Economic Stabilization Reserve, SFUSD Rainy Day Economic Stabilization Reserve, and the City's Rainy Day One-Time Reserve.

The Mayor's budget appropriates the maximum allowable withdrawals of the City's Rainy Day Economic Stabilization Reserve, $114.5 million in FY 2020-21 and $57.3 million in FY2021-22, resulting in a projected ending balance of $57.3 million by the end of FY 2021-22.

No deposits or uses of SFUSD's Rainy Day Economic Stabilization Reserve are budgeted in either year. In FY 2019-20, the San Francisco Unified School District's Board approved the withdrawal of $20.0 million from the Rainy Day School Reserve on May 26, 2020. This withdrawal is assumed in the $34.5 million FY19-20 ending balance shown in the table above.

In accordance with the administrative provisions of the Mayor's proposed budget, the balance of the City's Rainy Day One-Time Reserve, along with several other reserves, will be consolidated into a single COVID Response and Economic Loss Reserve in FY 2019-20.

3. Budget Stabilization Reserve
Established by Administrative Code Section 10.60(c), the Budget Stabilization Reserve augments the Rainy Day Reserve. These two reserves are available to support the City's budget in years when revenues decline. The Budget Stabilization Reserve is funded by 75 percent of three volatile sources: real property transfer tax revenue, ending unassigned fund balance, and certain asset sales. No deposit is budgeted to this reserve in either budget year.

During a recession, the maximum allowable withdrawal from the combined balance of City's Rainy Day Economic Stabilization Reserve and the Budget Stabilization Reserve is 30% in the first year and 50% in the second year. The Mayor's budget appropriates the maximum allowable withdrawals of the Budget Stabilization Reserve, $42.0 million in FY 2020-21 and $125.3 million in FY 2021-22, resulting in a projected ending balance of $125.3 million by the end of FY 2021-22.

4. COVID Response and Economic Loss Reserve
In accordance with the administrative provisions of the Mayor's proposed budget, the balance of the several reserves will be consolidated into a single COVID Response and Economic Loss Reserve in FY 2019-20, as shown below.

Exhibit 2.2. Proposed COVID Response and Economic Loss Reserve ($ millions)

	Nine-Month (May 2020)	Revenue Letter (Aug. 2020)
COVID Response and Economic Loss Reserve	$ -	$ 507.4
Rainy Day One-Time Reserve	45.5	-
Budget Stabilization Reserve - One Time Reserve	66.9	-
Affordable Care Act Contingency Reserve	50.0	-
State and Federal Revenue Risk Reserve	40.0	-
Housing Authority Contingency Reserve	5.0	-
Fund Balance Draw Down Reserve	213.0	-
Budget Savings Incentive Fund	87.0	-
Total	$ 507.4	$ 507.4

5. Business Tax Stabilization Reserve

The Mayor's proposed budget assumes that voters approve a November 2020 ballot measure to modify the City's business taxes, which would enable the City to access $302.8 million in FY 2020-21 and $28.0 million in FY 2021-22 of revenues collected from the Commercial Rent Tax (June 2018 Proposition C) and Homeless Gross Receipts Tax (November 2018 Proposition C) currently subject to refund due to litigation. The Business Tax Stabilization Reserve was created to equalize the benefit of the advance repayments assumed in the budget years over future fiscal years. The budget includes a $208.0 million deposit in FY 2020-21 and a $149.0 million use in FY 2021-22.

6. Public Health Revenue Management Reserve

The Public Health Management Reserve is authorized under Section 12.6 of the administrative provisions of the Annual Appropriation Ordinance, authorizing the Controller to defer surplus transfer payments, indigent health revenues, and Realignment funding to offset future reductions of audit adjustments associated with the Affordable Care Act and funding allocations for indigent health services. This provision was adopted by the Board of Supervisors to smooth volatile state and federal revenues that can lead to large variances between budgeted and actual amounts due to unpredictable timing of payments, major changes in projected allocations, and delays in final audit settlements. The FY 2019-20 ending balance of the reserve is projected to be $81.5 million, as reported in the Nine Month Report. There are no anticipated deposits or withdrawals from this reserve.

7. Recreation & Park Reserves

The Recreation and Park Savings Incentive Reserve is established by Charter Section 16.107(c) and prior to Proposition B, passed by the voters on June 7, 2016, was funded by the retention of year-end net expenditure savings and revenue surplus from the Recreation and Park Department. Proposition B eliminated the ability to retain expenditure savings while preserving deposits from surplus revenue. Any withdrawals from the reserve must go towards one-time expenditures. No deposits or withdrawals are included in the Mayor's proposed budget.

8. Litigation Reserve

The Mayor's proposed budget includes $11.0 million for the litigation reserve in both FY 2020-21 and FY 2021-22. The reserve provides funding for judgments and claims paid out during the budget period based on historical experience and consistent with the level adopted in the Five Year Financial Plan. The

City also maintains a separate reserve funded from prior year appropriations for large cases pending against the City.

9. Reserve for Technical Adjustments

Reserves of $4.5 million in FY 2020-21 and FY 2021-22 in the proposed budget allow for technical adjustments during the budget review process. The Mayor's Office will inform the Budget and Finance Committee prior to the final Committee vote on the budget as to the amount required for technical adjustments up to that point and any balance that may be available for other uses.

10. Salary & Benefits Reserve

The Mayor's proposed budget provides $23.5 million in FY 2020-21 and 2021-22 to cover costs related to adopted MOUs with labor organizations.

Appendix 3. One-time Sources and Nonrecurring Revenue Policy

The use of one-time or nonrecurring sources to support ongoing operations creates a future budget shortfall, requiring expenditures to be reduced or replacement resources identified. In December 2011, the Board approved a Nonrecurring Revenue Policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for identified nonrecurring expenditures. The Controller is required to certify compliance with this policy. The selected revenues include:

- General Fund prior year-end unassigned fund balance, before reserve deposits, above the prior five-year average;
- The General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts after accounting for any Charter-mandated revenue transfers, set-asides, or deposits to reserves;
- Otherwise unrestricted revenues from legal judgments and settlements; and
- Otherwise unrestricted revenues from the sale of land or other fixed assets.

Controller's Certification

General Fund prior year-end unassigned fund balance is budgeted at $361.2 million for FY 2020-21 and $9.8 million for FY 2021-22. These amounts fall below the prior five-year average of year-end fund balances of $548.5 million. Thus, for the purposes of the non-recurring revenue policy, the use of fund balance is not considered a one-time source. The proposed budget also uses $171.8 million in FY 2020-21 and $167.3 million in FY 2021-22 of prior year reserves. Additionally, the budget appropriates $330.8 million of transfers-in related to the repayment of General Fund advances for June and November 2018 Prop C eligible purposes, assuming passage of a November 2020 ballot measure reforming business tax. Of the $330.8 million of transfers, $272.8 million are one-time in nature. To equalize the benefit of the repayment over time, a "Business Tax Stabilization Reserve" was created. As shown in Exhibit 3-1, the budget contains $552.9 million of budgeted nonrecurring sources but only $341.7 million nonrecurring expenditures. Therefore, the Controller's Office cannot certify compliance with the policy.

Exhibit 3.1. General Fund Nonrecurring Sources & Uses ($ millions)

One-Time Sources	FY 2020-21 Proposed	FY 2021-22 Proposed	Total
Prior Year Reserves			
Rainy Day Reserve	114.5	57.3	171.8
Budget Stabilization Reserve	42.0	125.3	167.3
November 2020 - Business Tax Prop C Release			
Repayment of Jun & Nov 2018 Prop C Funds (One-Time)	272.8	-	272.8
Business Tax Stabilization Reserve	(208.0)	149.0	(59.0)
Total One-Time Sources	$ 221.3	$ 331.6	$ 552.9
One-Time Uses			
Capital Plannning GF Recommended Funding	$ 47.0	$ 46.3	$ 93.3
Housing and Shelters	24.2	-	24.2
COIT Annual and Major IT projects	22.9	17.4	40.3
DPH One time Uses	14.2	-	14.2
Other Capital	12.8	11.0	23.8
Equipment	6.8	5.5	12.3
Nonprofit/Small Business	1.7	1.7	3.4
Covid General Fund Budget	93.0	-	93.0
Other	30.5	6.7	37.2
Total One-Time Uses	$ 253.1	$ 88.6	$ 341.7
		Difference	$ (211.2)

Appendix 4. Baselines & Mandated Funding Requirements

Voter-approved levels of funding or staffing are summarized below in Exhibit 4-1.

Exhibit 4-1. Baselines & Mandated Funding Requirements ($ millions)

	FY 2019-20 Original Budget	FY 2020-21 Proposed Budget	FY2021-22 Proposed Budget	Note
General Fund Aggregate Discretionary Revenue (ADR)	*$ 4,205.3*	*$ 3,486.8*	*$ 3,905.4*	
Financial Baselines				
Municipal Transportation Agency (MTA)				
MTA - Municipal Railway Baseline: 6.686% ADR	284.6	240.7	276.7	
MTA - Parking & Traffic Baseline: 2.507% ADR	105.4	87.4	97.9	
MTA - Population Adjustment	56.3	55.4	57.6	
MTA - 80% Parking Tax In-Lieu	66.4	47.5	67.7	
Subtotal Municipal Transportation Agency	$ 512.7	$ 431.0	$ 499.8	1
Library Preservation Fund				
Library - Baseline: 2.286% ADR	96.1	79.7	89.3	2
Library - Property Tax: $0.025 per $100 Net Assessed Valuation (NAV)	65.3	67.4	67.3	3
Subtotal Library	161.4	147.1	156.6	
Children's Services				
Children's Services Baseline - Requirement: 4.830% ADR	*203.1*	*168.4*	*188.6*	4
Children's Services Baseline - Eligible Items Budgeted	266.6	193.6	208.9	
Transitional Aged Youth Baseline - Requirement: 0.580% ADR	*24.4*	*20.2*	*22.7*	5
Transitional Aged Youth Baseline - Eligible Items Budgeted	31.4	30.9	31.0	
Public Education Services Baseline: 0.290% ADR	12.2	10.1	11.3	6
Children and Youth Fund Property Tax Set-Aside: $0.0375-0.4 per $100 NAV	104.5	107.8	107.7	3
Public Education Enrichment Fund: 3.057% ADR	*128.6*	*106.6*	*119.4*	7
1/3 Annual Contribution to Preschool for All	42.9	35.5	39.8	
2/3 Annual Contribution to SF Unified School District	85.7	71.1	79.6	
Subtotal Childrens Services	543.2	449.0	478.3	
Recreation and Parks				
Open Space Property Tax Set-Aside: $0.025 per $100 NAV	65.3	67.4	67.3	3
Recreation & Parks Baseline - Requirement	*76.2*	*76.2*	*79.2*	8
Recreation & Parks Baseline - Budgeted	82.1	84.0	80.5	
Subtotal Recreation and Parks	147.4	151.4	147.8	
Other Financial Baselines				
Housing Trust Fund Requirement	*36.8*	*39.6*	*42.4*	9
Housing Trust Fund Budget	57.1	39.6	42.4	
Dignity Fund	50.1	50.1	53.1	10
Street Tree Maintenance Fund	21.7	18.0	20.1	11
Municipal Symphony Baseline: $0.00125 per $100 NAV	3.5	3.8	3.7	12
City Services Auditor: 0.2% of Citywide Budget	20.1	22.9	21.4	13
Subtotal Other Financial Baselines	152.4	134.3	140.8	
Total Financial Baselines	$ 1,517.1	$ 1,312.7	$ 1,423.3	
Recently Adopted Expenditure Requirements				
Our City, Our Home Baseline Requirement (Nov 2018 Prop C)	*215.0*	*215.0*	*215.0*	14
Our City, Our Home Budget, Estimated	340.0	266.8	279.8	
Early Care and Education Baseline Requirement (June 2018 Prop C)	*93.1*	*79.7*	*86.5*	15
Early Care and Education Budget	97.7	90.8	98.0	
Staffing and Service-Driven Baselines				
Police Minimum Staffing		Likely Not Met		16

NOTES

1. Municipal Transportation Agency (MTA) Baselines

Charter section 8A.105 established a Municipal Transportation Fund to provide a predictable, stable and adequate level of funding for the MTA. Consistent with the Charter, in FY 2000-01 a base amount of funding was established. Charter subsection (c) (1) requires the Controller's Office to adjust the base amount from year to year by the percent increase or decrease in General Fund Aggregate Discretionary Revenues (ADR). This baseline is required to be adjusted for significant service increases. Beginning in FY 2020-21, the MTA baseline will increase due to operating costs required in advance of the opening of the Central Subway, which is expected to fully come online in FY 2021-22.

Beginning in FY 2002-03, this Charter section also established a minimum level of funding (required baseline) for the Parking and Traffic Commission based upon FY 2001-02 appropriations. Proposition B, passed by the voters in November 2014, requires that in addition to adjusting annually for the change in ADR, these baseline amounts be increased for 10 years of population growth in the City in FY 2015-16 and annual population growth thereafter. Finally, 80 percent of parking tax revenue is allocated to the MTA. In total, the Mayor's proposed budget includes funding for theses MTA baselines at the required levels of $431.0 million in FY 2020-21 and $499.8 million in FY 2021-22.

2. Library Baseline

Charter Section 16.109 established a Library Preservation Fund to provide library services and to construct, maintain, and operate library facilities. Consistent with the Charter, in FY 2006-07 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. Based on revenue in the Mayor's proposed budget, the Library Baseline requirements of $79.7 million in FY 2020-21 and $89.3 million in FY 2021-22 are met.

3. Property Tax-Related Set-Asides

Charter Sections 16.108, 16.109, and 16.107 mandate property tax-related set-asides for the Children and Youth Fund, the Library Preservation Fund, and the Open Space Fund, respectively. The Children and Youth Fund receives an allocation of $0.0400 on each $100 valuation of taxable property. The Library Preservation Fund and the Open Space Fund receive allocations of $0.025 for each $100 valuation of taxable property. The Mayor's proposed budget includes required funding of $107.8 million in FY 2020-21 and $107.7 million in FY 2021-22 for the Children and Youth Fund, and $67.4 million and $67.3 million in FY 2020-21 and FY 2021-22, respectively, for both the Library Preservation Fund and Open Space Fund.

4. Children's Baseline

Charter Section 16.108 established a Children and Youth Services baseline. Consistent with the Charter, in FY 2000-01 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. Proposition C, approved by voters in November 2014, amended the Charter to exclude medical health services as an eligible service. As a result, and as part of establishing the Disconnected Transitional-Aged Youth Baseline, the Controller reviewed City appropriations included in the fund and excluded medical health services and other expenditures now mandated by state law. The Controller then recalculated City appropriations as a percentage of ADR to arrive at an adjusted baseline rate. The required Children's baselines for FY 2020-21 and FY 2021-22 are $168.4 million and $188.6 million, respectively. The Mayor's proposed budget includes Children's Baseline appropriations of $193.6 million and $208.9 million, which exceed the minimum requirement by $25.2 million in FY 2020-21 and $20.3 million in FY 2021-22.

5. Disconnected Transitional-Aged Youth Baseline
Proposition C, approved by voters in November 2014, amended Charter Section 16.108 to increase the Children's Baseline to include services for Disconnected Transitional-Aged Youth (TAY), known as the TAY Baseline. The Charter requires that the TAY Baseline be added to the Children's Baseline, however, it is tracked separately for reporting purposes. The TAY Baseline amount was established in FY 2013-14 and like the Children's Baseline is adjusted annually by the percent increase or decrease in ADR. The required baselines for FY 2020-21 and FY 2021-22 are $20.2 million and $22.7 million, respectively. The Mayor's proposed budget includes TAY eligible baseline appropriations of $30.9 million and $31.0 million, which exceed the minimum requirement by $10.7 million in FY 2020-21 and $8.3 million in FY 2021-22.

6. Public Education Services Baseline
Charter Section 16.123-2 established a Public Education Enrichment Fund. Consistent with the Charter, in FY 2001-02 a base amount of funding was established, which is adjusted annually by the percent increase or decrease in ADR. The Mayor's proposed budget includes the required $10.1 million in FY 2020-21 and $11.3 million in FY 2021-22 for this baseline.

7. Public Education Enrichment Fund Annual Contribution
In addition to the Public Education Services Baseline, Charter Section 16.123-2 requires the City to support education initiatives with annual contributions equal to the City's total contribution in the prior year, adjusted for the change in ADR. The proposed budget includes $106.6 million and $119.4 million for the Public Education Enrichment Fund Annual Contribution in FY 2020-21 and FY 2021-212, respectively. One third of the contribution supports the Preschool for All program at the Office of Early Childhood Education and two thirds of the contribution supports programming at the San Francisco Unified School District.

8. Recreation & Parks Baseline
In June 2016, voters approved Proposition B, a Charter amendment which requires an annual contribution from the General Fund to the Recreation and Parks Department that will increase by $3.0 million per year for the next ten fiscal years, and then be adjusted at the same rate as the percentage increase or decrease in ADR. The City may suspend growth in baseline funding in years when the City forecasts a budget deficit of $200 million or greater. Growth in the required spending level in FY 2020-21 is suspended because of the forecasted budget deficit, resulting in required baselines for FY 2020-21 and FY 2021-22 of $76.2 million and $79.2 million, respectively. The Mayor's proposed budget includes General Fund appropriations of $84.0 million and $80.5 million, which exceed the minimum requirement by $7.9 million in FY 2020-21 and $1.3 million in FY 2021-22.

9. Housing Trust Fund
In 2012, voters established the Housing Trust Fund. Charter section 16.110 requires an annual contribution from the General Fund to the Housing Trust Fund of $20.0 million beginning in FY 2013-14 and increasing annually by $2.8 million. The required baselines for FY 2020-21 and FY 2021-22 are $39.6 million and $42.4 million, respectively, and the Mayor's proposed budget includes funding at that level.

10. Dignity Fund
In November 2016, voters approved Proposition I, establishing the Dignity Fund to support programming for seniors and adults with disabilities. Charter section 16.128-3 establishes a baseline contribution from the General Fund to the Dignity Fund of $38.1 million beginning in FY 2016-17, increasing by $6.0 million in FY 2017-18 and by $3.0 million per year from FY 2018-19 through FY 2026-

27. From FY 2027-28 and beyond, the baseline is adjusted by the percentage increase or decrease in ADR. The Charter allows the City to suspend growth in this baseline in years when the City forecasts a budget deficit of $200 million or greater. Growth in FY 2020-21 is therefore suspended, resulting in required baselines of $50.1 million and $53.1 million in FY 2020-21 and FY 2021-22, respectively.

11. Street Tree Maintenance Fund
In November 2016, voters approved Proposition E, establishing the Street Tree Maintenance Fund to maintain the City's street trees. Charter section 16.129 establishes a baseline contribution from the General Fund to the Street Tree Maintenance Fund of $19.0 million in FY 2017-18 and adjusted by the percentage increase or decrease in ADR every year thereafter. The Mayor's proposed budget includes the required funding of $18.0 million and $21.0 million in FY 2020-21 and FY 2021-22, respectively.

12. Municipal Symphony Baseline
Charter Section 16.106(1) mandates that the City provide an appropriation equivalent to 1/8 of $0.01 of each $100 of assessed valuation of property tax for the San Francisco Municipal Symphony Orchestra. Based on budgeted assumptions of assessed valuation, the required funding for the Municipal Symphony Baseline is $3.8 million in FY 2020-21 and $3.7 million in FY 2021-22.

13. City Services Auditor Baseline
Charter Section F1.113, approved by voters through Proposition C in November 2003, established the Controller's Audit Fund with a baseline funding amount of 0.2 percent of the City budget to fund audits of City services. The Mayor's proposed budget includes $21.0 million in FY 2020-21 and $19.5 million in FY 2021-22 for the City Services Auditor baseline.

14. Our City, Our Home Baseline
The Homeless Gross Receipts Tax authorized by Proposition C in November 2018 created a requirement to maintain homeless spending at FY 2017-18 budgeted levels. The base amount of funding was subsequently calculated to be $215.0 million. The proposed budget exceeds this requirement, appropriating $266.8 million in FY 2020-21 and $279.8 million in FY 2021-22.

This requirement is calculated by totaling all Proposition C-eligible spending, excluding the Our City, Our Home special revenue fund. The calculation includes spending in the General Fund, various special revenue funds, and other funds. In FY 2020-21, $292.8 million of Proposition C-eligible spending is appropriated across all funds; however, $26.0 million is assumed to be supported by the Homeless Gross Receipts Tax (via a transfer), for a net baseline budget of $266.8 million. These figures are estimated based on the August 1, 2020 budget.

Exhibit 4.1 Our City, Our Home Baseline-Eligible Expenditures

	FY 2020-21	FY 2021-22
Permanent Housing	158.0	144.9
Homeless Shelter & Hygiene	72.0	72.5
Homelessness Prevention	40.6	39.9
Mental Health	22.2	22.5
Total	292.8	279.8
Budgeted Repayment	(26.0)	-
Net	266.8	279.8

15. Early Care and Education Baseline

The Commercial Rent Tax for Early Care and Education authorized by Proposition C in June 2018 established a requirement to fund early childhood care and education. A base amount of funding was established for FY 2017-18, which is adjusted annually by the percent increase or decrease in ADR. The required baselines for FY 2020-21 and FY 2021-22 are $79.7 million and $86.5 million, respectively. The proposed budget exceeds those minimum funding levels by appropriating $90.8 million in FY 2020-21 and $98.0 million in FY 2021-22.

16. Police Minimum Staffing Baseline

San Francisco Charter Section 4.127, approved by the voters in 1994 as Proposition D, mandates a minimum police staffing baseline of not less than 1,971 sworn full-duty officers. Pursuant to Proposition C, passed by the voters in March 2004, the Charter-mandated minimum staffing level may be reduced in cases where civilian hires result in the return of full-duty officers to active police work through the budget process. The baseline is likely not met. However, conditional upon the certification of civilianization levels by the Chief of Police and reduction in the number of officers on modified duty, the police staffing baseline may be met.

Exhibit 4.2 Police Staffing Baseline

	FY20-21	FY21-22
Total Sworn Officers in New Fiscal Year	**2,285**	**2,285**
Projected Changes:		
Officers Assigned to Airport and Academy	(263)	(313)
Officers on Modified Duty	(193)	(193)
Projected Retirements & Terminations	(80)	(80)
New Officers from Academy Class	80	80
Projected Year-End Full-Duty Officers	**1,829**	**1,779**
Baseline Staffing Requirement	1,971	1,971
Civilianized Positions	107	107
Revised Baseline	**1,864**	**1,864**
Shortfall from Baseline	**(35)**	**(85)**

The Police Department projects that as of July 1, 2020 it will have 2,285 sworn officer positions filled, supplemented by 80 officers graduating from the academy to full duty and offset by 80 terminations or other separations during FY 2020-21. Projected staffing levels will change throughout the course of the fiscal year due to the timing of police academy graduations and officer retirements. The department projects that 456 officers will be on leaves of absence, modified duty, assignment to the Airport, or in the academy. These adjustments result in a projected total of 1,829 full-duty sworn officers available for neighborhood policing and patrol by the end of FY 2020-21, which is below the minimum staffing level of 1,971. The Controller's Office estimates that as of the start of FY 2020-21, 107 positions have been civilianized. Subject to certification by the Chief of Police, this would reduce the minimum staffing level to 1,864. Net of these civilianized positions, the number of full-duty sworn officers available for neighborhood policing and patrol, would be below the adjusted baseline by 35 officers in FY 2020-21.

In FY 2021-22, the Police Department is projected to have 80 officers graduating from the academy, offset by 80 terminations. In addition, approximately 506 officers are projected to be on leaves of absence, modified duty, assignment to the Airport, or in the academy. As a result, full-duty sworn officers available for neighborhood policing and patrol, are projected to be approximately 1,779 in FY 2021-22, which is below both the minimum staffing level of 1,971 officers and the adjusted minimum staffing level of 1,864.